

# Third Quarter 2016 Earnings Conference Call

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August 2, 2016

## Safe Harbor Statement

Our commentary and responses to your questions may contain forward-looking statements, including our outlook for the remainder of the year, and Emerson undertakes no obligation to update any such statements to reflect later developments. Factors that could cause actual results to vary materially from those discussed today include our ability to successfully complete on the terms and conditions contemplated, and the financial impact of, our strategic repositioning actions, as well as those provided in our most recent Annual Report on Form 10-K and subsequent reports as filed with the SEC.

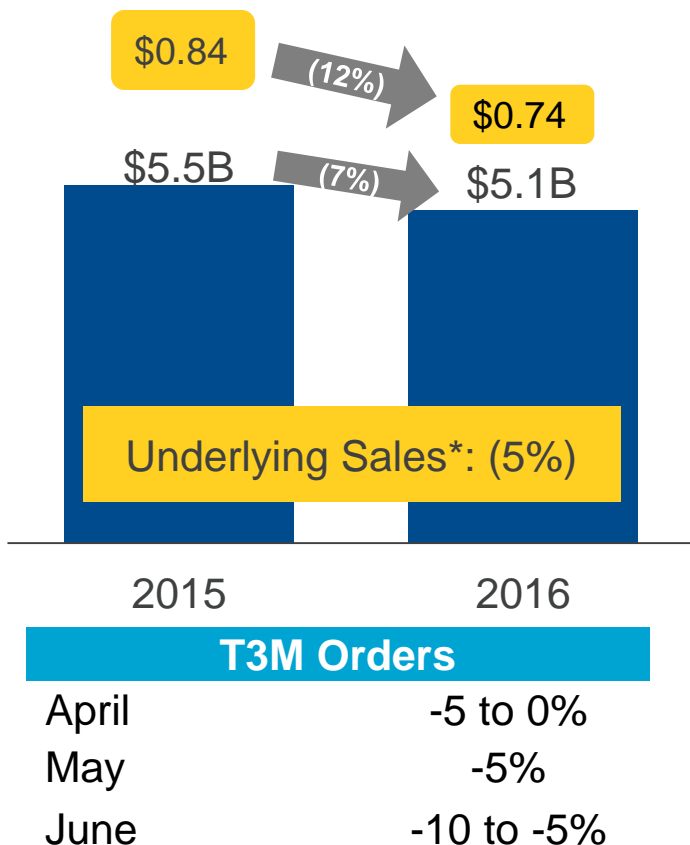
## Non-GAAP Measures

In this call we will discuss some non-GAAP measures (denoted with \*) in talking about our company's performance, and the reconciliation of those measures to the most comparable GAAP measures is contained within this presentation or available at our website [www.Emerson.com](http://www.Emerson.com) under Investor Relations.



# Third Quarter 2016

## Revenue and EPS



## Summary

- Challenging demand conditions
  - Oil and gas spending remains at depressed levels - - expected improvement in North America did not materialize
  - Favorable data center and telcom
  - Mixed conditions in HVACR and construction
- Adjusted earnings per share\* of \$0.80 excludes total separation costs of \$37M in the quarter
- Restructuring benefits and solid operational execution improved margins
- Operating cash flow generation of \$718M

**Third Quarter Results Reflect Low Growth Global Environment**

# Third Quarter 2016 P&L Summary

<u>(\$M excl. EPS)</u>	<u>2015</u>	<u>2016</u>	<u>Chg.</u>
Sales	\$5,503	\$5,126	(7%)
Gross profit	\$2,234	\$2,094	(6%)
% of sales	40.6%	40.8%	20 bps
SG&A expense	(\$1,276)	(\$1,203)	
Other deductions, net	<u>(\$122)</u>	<u>(\$102)</u>	
EBIT*	\$836	\$789	(6%)
% of sales*	15.2%	15.4%	20 bps
Shares	668.9	645.2	
EPS	\$0.84	\$0.74	(12%)
Adjusted EPS*	\$0.84	\$0.80	(5%)

→ Underlying sales\* down (5%)

→ Solid operational execution -- materials cost containment and benefits of restructuring actions

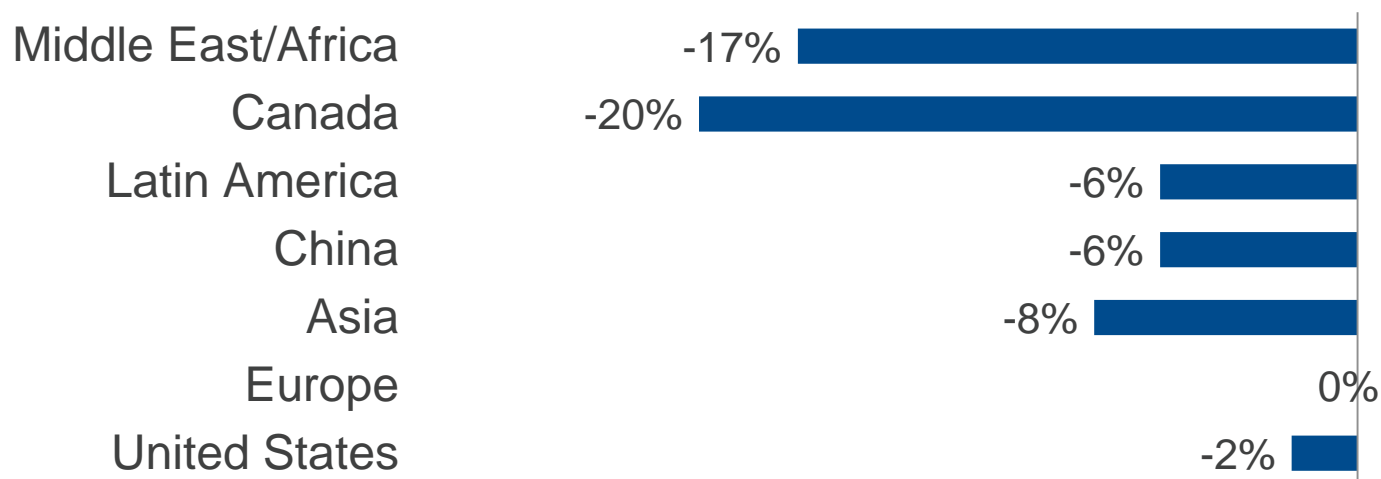
→ Pretax separation costs (\$28M)

→ EBIT margin up 20 basis points

→ Q3 separation costs significantly lower than expected \$37 vs. \$145M

# Third Quarter 2016

## Underlying Sales Change



Underlying sales*	(5%)
Acq/Div (InterMetro business)	(1) pts
FX impact	(1) pts
Net sales	(7%)

**Underlying Sales Performance by Region Similar to the Second Quarter - Very Tough Global Business Investment Environment**

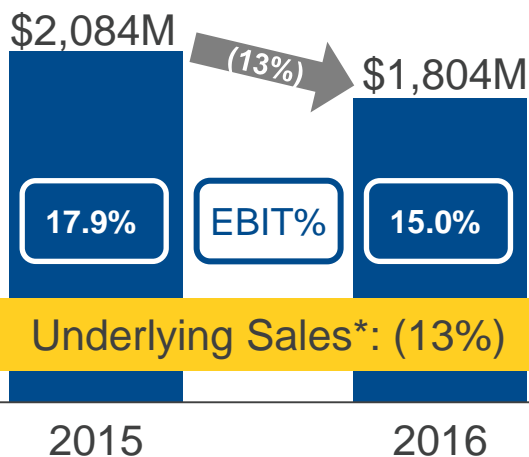
# Third Quarter 2016

## Business Segment Earnings & Cash Flow

<u>(\$M)</u>	<u>2015</u>	<u>2016</u>	<u>Chg.</u>	
Business segment EBIT*	\$886	\$846	(5%)	→ Segment margin up 50 basis points driven by benefits from restructuring actions and operational execution
% of sales*	15.5%	16.0%	50 bps	
Accounting methods	\$54	\$59		
Corporate & other	(\$104)	(\$116)		→ Separation costs (\$28M)
Interest expense, net	<u>(\$40)</u>	<u>(\$45)</u>		
Pretax earnings	\$796	\$744	(7%)	
% of sales	14.5%	14.5%	- bps	
Operating cash flow	\$499	\$718	44%	→ Improved cost structure
Capital expenditures	<u>(\$157)</u>	<u>(\$107)</u>	(32%)	→ Reduced capital spending
Free cash flow*	\$342	\$611	78%	
Trade working capital	\$4,014	\$3,733		
% of sales	18.2%	18.2%	- bps	→ Percent held to prior year level

# Third Quarter 2016 Process Management

## Reported Sales



## Sales % Chg. vs. PY

NA	(14%)
Asia	(16%)
<i>China</i>	(22%)
Europe	Flat
LAM	(14%)
MEA	(21%)
FX Impact	(1%)
Acquisitions	1%

## T3M Orders

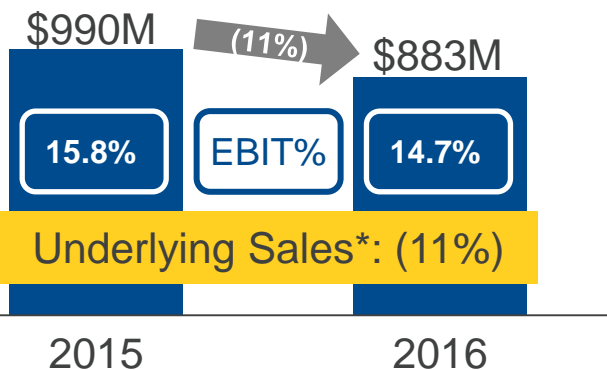
April	-10 to -5%
May	-15%
June	-20 to -15%

- Oil and gas customer spending continues to be reduced - - particularly in North American markets
- Increase in restructuring programs in response to weaker demand - - well into 2017
- Power and life sciences markets growing
- Segment margin decreased on volume deleverage, partially offset by savings from restructuring actions

**Energy Customers Evaluating Stability of Current Oil and Gas Prices - - No Expectation of Meaningful Spending Recovery Until Second Half of 2017**

# Third Quarter 2016 Industrial Automation

## Reported Sales



## Sales % Chg. vs. PY

NA	(13%)
Asia	(14%)
<i>China</i>	(13%)
Europe	1%
LAM	(20%)
MEA	(38%)
FX Impact	-

## T3M Orders

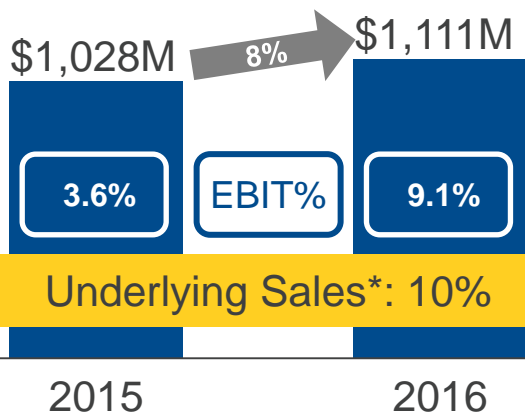
April	-10 to 5%
May	-10 to -5%
June	-10 to -5%

- Continued weakness in industrial spending and upstream oil and gas capital investments
- Wind projects remain favorable for drives business
- Segment margin decreased primarily due to volume deleverage and price, partially offset by savings from restructuring actions and materials cost containment

**Improved Levels of Sales and Profitability Expected in the Fourth Quarter**

# Third Quarter 2016 Network Power

## Reported Sales



## T3M Orders

April	10 to 15%
May	5 to 10%
June	0 to 5%

## Sales % Chg. vs. PY

NA	16%
Asia	13%
<i>China</i>	26%
Europe	(6%)
LAM	12%
MEA	9%
FX Impact	(2%)

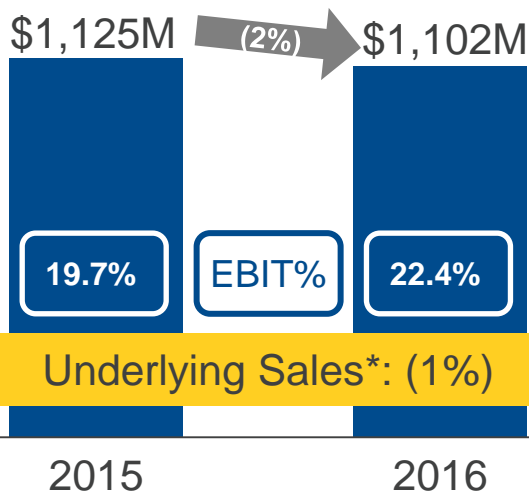
- Favorable demand for data center and telecommunications infrastructure
- 16% growth in North America led by telecommunications power systems
- Asia had mixed demand across the region, but China up 26%
- Europe down as prior year benefitted from large project revenues
- Segment margin improved 550 bps benefitting from volume leverage and restructuring actions

**Benefits from Restructuring Actions and New Product Programs Support Expected Continued Margin Improvement in the Fourth Quarter**



# Third Quarter 2016 Climate Technologies

## Reported Sales



## Sales % Chg. vs. PY

NA	2%
Asia	(11%)
<i>China</i>	(11%)
Europe	4%
LAM	2%
MEA	(6%)
FX Impact	(1%)

## T3M Orders

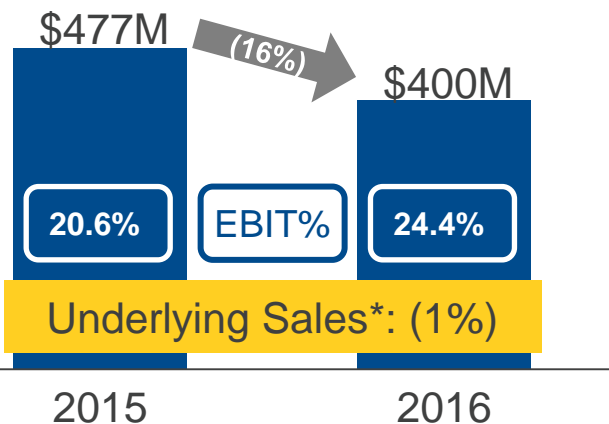
April	-5 to 0%
May	-5 to 0%
June	-5 to 0%

- U.S. air conditioning and commercial refrigeration up low-single digits
- Europe reflected low-single digit growth in both air conditioning and refrigeration
- Segment margin increased 270 bps primarily due to savings from restructuring actions and materials cost containment, partially offset by lower pricing

**Near-term Outlook for Global Demand in Air Conditioning and Refrigeration Markets Supports the Expectation for Modest Sales Growth in the Fourth Quarter - - Continued Strong Profitability**

# Third Quarter 2016 Commercial & Residential Solutions

## Reported Sales



## T3M Orders

April	0 to 5%
May	0 to 5%
June	-5 to 0%

## Sales % Chg. vs. PY

NA	(2%)
Asia	14%
<i>China</i>	(2%)
Europe	8%
LAM	(17%)
MEA	(12%)
<hr/>	
FX Impact	-
Divestiture - InterMetro	(15%)

- Growth in food waste disposers offset by declines in all other businesses - - customer driven inventory reductions
- Divestiture of commercial storage business impacted year-over-year sales comparison by (15%), but had a positive impact on segment margin
- Segment margin improved 380 bps from restructuring actions, materials cost containment and the impact of the divestiture

**Favorable Conditions in U.S. Construction are Expected to Support Outlook for Modest Levels of Underlying Growth in the Fourth Quarter - Channel Inventory Reductions Should be Complete**

# Strategic Repositioning Announced Last June 30th

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- Announced agreements to sell Network Power, Leroy-Somer and Control Techniques
- Agreements represent a significant step in the overall portfolio repositioning
- Proceeds will strengthen balance sheet and provide increased capacity for strategic investment
- Expect to recognize a combined pretax gain of \$450-\$550M, \$50-\$150M after-tax loss in Q4 2016 and Q1 2017
- Strategic repositioning squarely focused on acquisitions within core platforms of Automation Solutions and Commercial & Residential Solutions as we redeploy cash from these two divestitures

# Fiscal Year 2016 Outlook

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- Challenging environment reflecting reduced business investment spending, weaker global economics and political uncertainty
- Increased level of restructuring to offset current and expected end market conditions - - which will continue into 2017
- Revising fiscal year guidance
  - Underlying sales\* of (5%) to (6%)
    - Foreign currency headwinds of ~(2%)
    - Deduction for completed divestitures of ~(2%)
  - Adjusted\* earnings per share of \$2.90 to \$3.00
    - Excluding ~\$200-\$250M of estimated separation costs (\$0.30 to \$0.38)
    - Q4 loss on Leroy-Somer and Control Techniques ~\$100M (\$0.15)

# Reconciliation of Non-GAAP Measures & Other

This information reconciles non-GAAP measures (denoted with a \*) with the most directly comparable GAAP measure (\$M except per share amounts).

	Process Mgmt	Industrial Auto	Network Power	Climate Tech	Comm & Res Solns	Total
<b>Q3 2016 Sales Growth</b>						
Underlying*	(13)%	(11)%	10%	(1)%	(1)%	(5)%
Acq/Div	1%	-	-	-	(15)%	(1)%
FX	(1)%	-	(2)%	(1)%	-	(1)%
Reported	(13)%	(11)%	8%	(2)%	(16)%	(7)%

	2016E
<b>Sales Growth</b>	
Underlying*	(6) - (5)%
Acq/Div	~(2)%
FX	~(2)%
Reported	(10) - (9)%

	Q3 2015	Q3 2016	Change	2016E
<b>Earnings Per Share</b>				
Adjusted*	\$0.84	\$0.80	(5)%	\$2.90 - \$3.00
Loss on divestiture agreement	-	-		(0.15)
Separation costs	-	(0.06)		(\$0.38) - (\$0.30)
Reported	\$0.84	\$0.74	(12)%	\$2.37 - \$2.55

	Q3 2015	Q3 2016	% Change	% of Sales
<b>EBIT*</b>				
EBIT*	\$ 836	789	(6)%	
% of sales*	15.2%	15.4%		20 bps
Interest expense, net	(40)	(45)	(1)%	
% of sales	(0.7)%	(0.9)%		(20) bps
Pretax earnings	\$ 796	744	(7)%	
% of sales	14.5%	14.5%		- bps

Note: Underlying sales and orders exclude the impact of acquisitions, divestitures and currency translation.

^ The outlook represents the Company's expectations for its consolidated results including the expected full year results for the businesses that are subject of the Company's portfolio repositioning actions, and does not include any gains or losses on the ultimate disposition of these businesses, except as otherwise set forth herein.



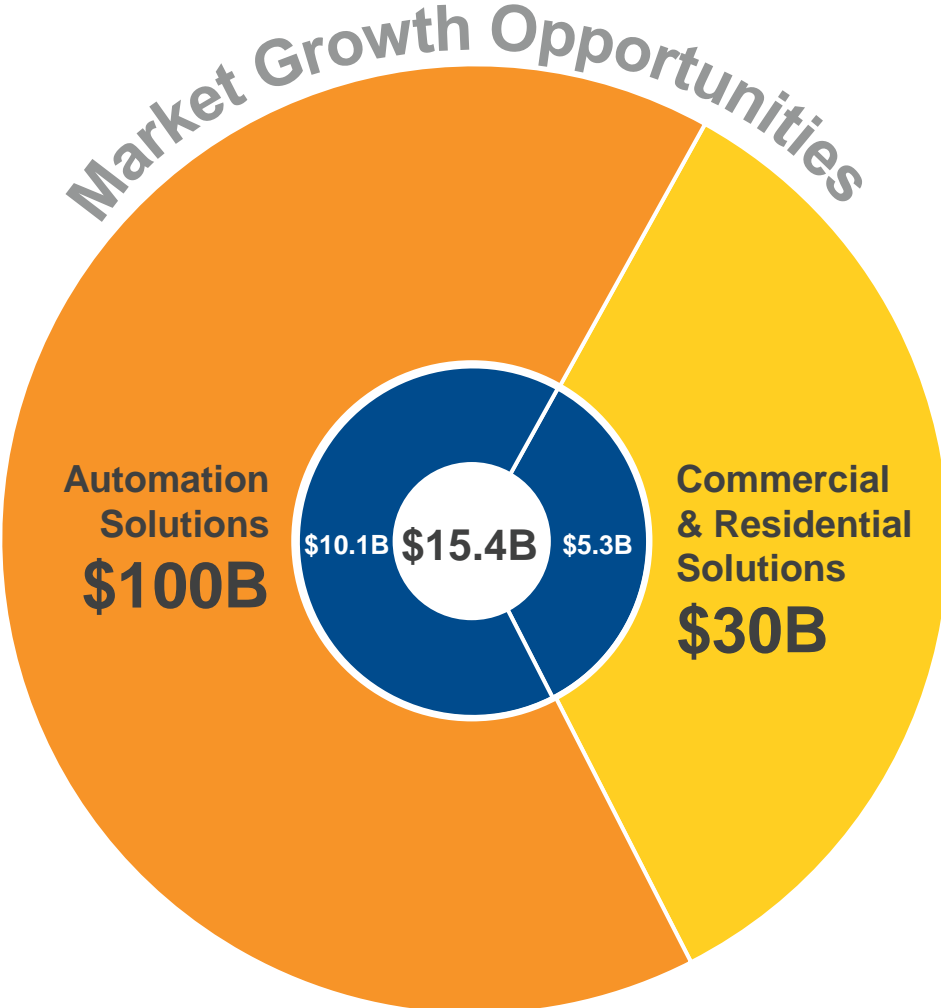
# Emerson Transformation

**Katherine Button Bell**  
**August 2, 2016**



**EMERSON**

# Emerson New Business Focus and Market Growth Opportunities



## Near-Term Growth Drivers

### Automation Solutions

- Lifecycle Services
- Hybrid and Discrete Automation
- Wireless Solutions
- Pipeline Management
- Integrated Coordination and Control

### Commercial & Residential Solutions

- HVAC and Refrigeration Lifecycle Services
- Environmentally Friendly Refrigerants
- Sensors, Controls and Connectivity
- Global Disposer Adoption
- E-commerce

## Transformational Opportunities

### Automation Solutions

- Pervasive Sensing
- Digitalization of Installed Base
- Enriched Business Models to improve Energy Management, Reliability and Safety

### Commercial & Residential Solutions

- Residential Solutions
- Retail Solutions
- Transportation Solutions
- Food Waste to Energy

# Evolution of Emerson Branding

## Continuous Journey of Complexity Reduction / Integration

1967 – 2000



2000



2012



2016



Objective has always been to make Emerson easier to understand and easier to do business with



# Evolving Our Message from “Doing Many Things” to Focusing on “Critical Issues” and a True Solutions Approach



## Automation Solutions

- Making the greatest use of the world’s valuable resources
- Helping nations move their economies forward in a responsible way
- Enabling the performance of industry when it matters most
- Advancing the industries that are the backbone of daily life

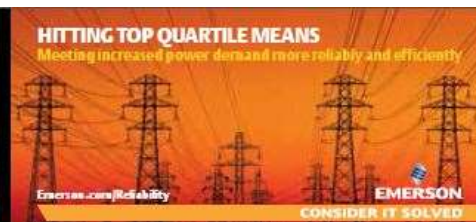
## Commercial and Residential Solutions

- Ensuring human comfort
- Protecting food quality and sustainability
- Advancing energy efficiency and environmental conservation
- Supporting infrastructure sustainability
- Innovating at The Helix

**We can now concentrate our efforts on the most complex and important challenges facing the world in the process, industrial, commercial and residential markets**

# Emerson Transitions Communication from “Conglomerate” to “Focused Enterprise”

	FROM	TO
Emerson.com	Numerous individual product sites	Single global enterprise site
Talent Acquisition	Fragmented, business unit and job focused	Global Emerson career centric
Business Cards	Multiple platforms and logos	Single Emerson logo
Social Media	Business unit / Product centric	Unified industry expertise and humanizing the brand
Advertising	Demonstrate broad portfolio	Showcase deep expertise



# Emerson Surprises Industry - Becomes Sole Foundational Partner for CERAWEEK



**IHS ENERGY CERAWEEK** Energy Transition: Strategies for a New World  
February 22-26, 2016 - Houston, Texas

HOME AGENDA SPEAKERS SPECIAL PROGRAMS ABOUT PARTNERS VENUE PRESS REGISTER

**Foundational Partner**

**EMERSON**

**Strategic Partners**

ABB bp centrica  
CHENIERE ConocoPhillips EnergyCapital ERM  
ExxonMobil GE HSBC Shell  
SIEMENS Statoil TOTAL Vins&Elsons LLC

**Industry Partners**

Dow EgonZehnder ENI  
Honeywell IndianOil JOGMEC  
MITe MIT Energy Initiative ONS PARALLAX LNG سولسترونك soust oronco  
Schlumberger Schneider Stanford THE CADLEY GROUP

**Emerson able to dramatically showcase unique Top Quartile Solutions at a critical moment in the industry**

# Emerson Recognized as a Leading Voice - Social Media Amplified Compelling Story

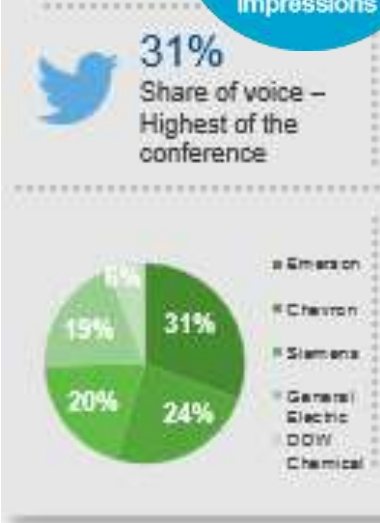
**49+**  
Million  
Media  
Impressions



**1.3**  
Million  
Social  
Impressions



Emerson Electric's president on the state of oil



**The Dallas Morning News**  
High-tech company with Texas ties may have efficiency solution for oil executives

"While some in the industry can be skeptical of change, Emerson's Nyquist and others said now that the low price of oil is squeezing budgets, many are looking to technology to give a companies an edge."

# The Helix Innovation Center – Industry-First Advancing Research and Education

Located on University of  
Dayton campus, part of



NEARLY **40,000**  
  
square foot  
FACILITY

**5** SIMULATED  
  
REAL-WORLD  
environments



Residential  
Connected  
Home



Light  
Commercial  
Building



Food Service  
Operations



Supermarket  
Refrigeration



Data Center  
Thermal  
Management

Five real world heating, cooling and refrigeration environments under one roof

# Media Showcased Emerson's STEM Survey and The Helix Innovation Center

**Over 84,500,000 Total Media Impressions**

**Emerson STEM Survey provided dramatic results for media**

**550+ Satellite Media Tour Airings and Nearly 8 Million Impressions**

Dallas, Miami, Los Angeles, San Francisco and Seattle

**Hank Green / Mashable story shared more than 2,600 times**

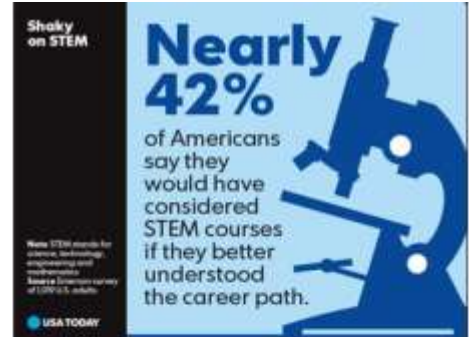
**Seeking Alpha byline distributed to 8,500 investors and business leaders**

A true meeting of the minds!  
@Emerson\_News CEO Dave Farr with @HankGreen #ILoveSTEM



Kathy Button Bell  
@Emerson\_KathyBB  
A true meeting of the minds!  
@Emerson\_News CEO Dave Farr with @HankGreen, #ILoveSTEMpic.twitter.com/4ZDLxqonJF

27 Apr



**Big day at The Helix today! @hankgreen & the grand opening #ILoveSTEM #ExperienceTheHelix**



Emerson Climate  
@EmersonClimate  
Big day at The Helix today!  
@hankgreen & the grand opening #ILoveSTEM #ExperienceTheHelix  
<http://emr.sn/wtx pic.twitter.com/lrkdnlAp9>

27 Apr

# Digital has Changed the Way We Do Business — Need to be Seamless, Frictionless and Relevant

## FROM

## TO

Emerson Internal Org. Structure



Customer Centric

Trial and error exploring



Easy Discovery / Search

Overwhelming information



Organized library of content

Unorganized and cluttered



Intuitive, relevant and findable

Dated design



Modern, flexible and engineered

Limited mobile capability



Always mobile

**“Useful is the New Cool”** – *Forbes*

# New Emerson.com

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## Helping Our Customers Address the World's Most Critical Needs

We've focused our new core business platforms to deliver the Automation Solutions and Commercial & Residential Solutions you can count on.

So that whatever the challenge, you can always Consider It Solved.™

[THE EMERSON STORY >](#)





**EMERSON**™